Union of Concerned Scientists
Citizens and Scientists for Environmental Solutions

June 10, 2004

Submitted to: Docket@energy.state.ca.us

California Energy Commission
Docket No. 01-GGE-1
1516 Ninth Street, MS 4
Sacramento, California 95814-5512

Thank you for the opportunity to provide feedback and comments on the Draft Forest Protocol Guidance to the California Climate Action Registry (CCAR). Clearly, the Protocol's authors and contributors expended a significant amount of time, effort, and thought to develop specific and detailed guidance for registering greenhouse gas emissions (GHG) from forests in California on a voluntary basis. We appreciate being included on the team of Expert Reviewers for this first-ever GHG reporting protocol specific to the forest sector.

We understand that there are inevitable tradeoffs and challenges associated with developing and implementing a voluntary GHG reporting mechanism—on the one hand, it is challenging to design information requirements that are not so burdensome as to discourage participation in a voluntary registry, but on the other hand, only comprehensive, high-quality information is effective for conveying whether GHG reductions by participating entities are real, accurate, and verifiable. Thinking forward, we feel that for a registry to be the basis for an active carbon market resulting from mandatory GHG reductions, reporting of emissions information must not only of course be mandatory, but of the highest possible quality and comprehensiveness. Ongoing problems stemming from inadequate financial reporting exemplify the loss of confidence in the market that results when reported information does not match up with actual performance.

CCAR is the first to develop a GHG reporting protocol specific to the forest sector, and despite its current voluntary status, it may eventually be considered as a possible basis for reporting on forest projects under a future system of mandatory GHG reductions in California and elsewhere. So in our view (and that of many colleagues), the Forest Project Protocol sets an especially important precedent. Andrea Tuttle of the California Department of Forestry noted that this is a possible future role for the registry at the May 27th workshop: "If a credit market ever develops, the value of California forest carbon will be reflected in the market price, and if it is registered in this registry, it will be of a very high quality." Because of this precedent set by the FPP, we believe it strive to move as far as possible towards what it would look like under mandatory requirements for GHG reductions.

www.ucsusa.org | Two Brattle Square · Cambridge, MA 02238-9105 · TEL: 617.547.5552 · FAX: 617.864.9405
1707 H Street, NW · Suite 600 · Washington, DC 20006-3962 · TEL: 202.223.6133 · FAX: 202.223.6162

Union of Concerned Scientists
Citizens and Scientists for Environmental Solutions

Previously, we submitted comments on both the draft Forest Entity and Forest Project Protocols. The comments provided here focus primarily on the draft Forest Project Protocol (FPP), since the majority of outstanding questions and key issues surround the FPP. We provide specific recommendations for improving the guidance provided in the FPP on two of the more challenging aspects of carbon project development in forestry (as well as other sectors)—establishing project additionality and accounting for market leakage, respectively.

Baselines and Additionality

Additionality refers to a standard that establishes whether a project creates a carbon benefit that is truly additional, or incremental, to the carbon that would have been stored in the project area in the absence of the project, i.e., in the "business-as-usual" case.

Forest Conservation

Forest conservation results in a real, additional climate benefit only if that forest, but for the implementation of conservation activities, would have been cleared and/or converted with a resultant loss of carbon. Thus, the FPP's basic approach to baseline setting for forest conservation projects, by establishing that the forest would definitely have been converted in the near-term to other uses, is relatively sound. Moreover, in most cases, land use trend information is sufficient to establish the pace and location of likely conversion.

UCS Recommendation

While the general approach is sound, we recommend the following adjustments to the information requirements for the baseline characterization for forest conservation:

- Local land use conversion trends—the FPP should also require the project developer to make an estimate of the likely timing of the future conversion, based on the pace of previous conversion and other relevant information.

- Site-specific threat of immediate conversion—the FPP rightly requires documentation that identifies the specific conversion threat and project area that would have been converted from forest. However, the timeframe for the converstion window should be shortened to two or three years maximum. Otherwise, this approach could result in a fairly significant error in baseline estimation that would in turn bias the estimate of the project carbon benefit, since the timing of actual project benefits of conservation could be misstated by up to five years. Moreover, the closer to the time of likely conversion, the

www.ucsusa.org | Two Brattle Square · Cambridge, MA 02238-9105 · TEL: 617.547.5552 · FAX: 617.864.9405
1707 H Street, NW · Suite 600 · Washington, DC 20006-3962 · TEL: 202.223.6133 · FAX: 202.223.6162

easier it will be to find sufficient documentation that clearly shows the imminent conversion.

Forest Management

The FPP establishes adherence to legal requirements put forth by the California Department of Forestry as the test for the additionality of forest management projects. Such an approach assumes that, because the rules for forest management under the CA Forest Practices Act are so prescriptive, any management activities that exceed the requirements of the California Forest Practice Rules (FPR) are automatically additional to the baseline or business-as-usual case, i.e., what would have occurred but for the forest management project.

Unfortunately, the use of requirements under FPR as the baseline for forest management projects means that any forest owner or manager who manages above and beyond the FPR would inaccurately characterize the incremental carbon stock that results from their management approach. Invariably, some lands will be managed beyond California's legal requirements, so in this case the use of FPR as a baseline would overstate a management project's actual carbon benefit. Conversely, those owners or managers who are not managing lands according to FPR would be understating the carbon benefits of managing forest lands above and beyond legal requirements.

In the absence of more information to make the case that adherence to CPR closely approximates business-as-usual practices for all forest management in California, neither regulators nor the public will have adequate information to recognize the carbon benefits of forest management projects under a legal additionality. As such, if legal additionality will be retained in future versions of the FPP, we strongly recommend the changes below.

UCS Recommendation(s):

1. We strongly recommend that at minimum, CCAR provide more background information to justify the choice of legal additionality for this iteration of the FPP. Specifically, we recommend adding summary information that describe the following:

- In general terms, the substantive difference between California's Forest Practice Rules, versus typical baselines for forest management on private lands elsewhere in US. Is there publicly available information (e.g., reports from consulting foresters on file at CDF) that would allow others to verify that compliance with CPR is actually the "business-as-usual" case rather than the exception for private forests in California?

- Statistics/data that describe prevailing trend of conversion on California's private forest lands, e.g., rates of conversion for actively managed private lands over last five years, total acres converted and as a percentage of total forest lands, and existing economic incentives for further conversion. This would lend further support to the notion that exceeding legal requirements is additional when the prevailing trend is conversion of private forest to other land uses.

Moreover, we recommend that CCAR explicitly state that a legal basis for additionality may be appropriate for forest management in this context only, i.e., because of conditions unique to the forest sector in California, but that such an approach would likely be inadequate for establishing additionality in places where forest management practices required by law are less prescriptive and well-enforced than in California.

Project Leakage

Project leakage in the forest sector occurs when a project displaces activities or products elsewhere, and in doing so results in GHG emissions that occur at another site outside the project area. In other words, some or all of the carbon benefit of the project "leaks," or occurs beyond the project boundary. Market leakage (as opposed to activity leakage) refers to a forest project that displaces the production of products (e.g., timber) sold in markets.

Market leakage tends to be a more vexing problem for forest conservation projects, because conservation tends to displace more products than do changes to forest management. In some cases, a conservation project could actually result in a net harm to the climate—if the activity (e.g., harvest) is displaced to another forest with higher density carbon, and/or where more intensive harvest practices are employed, this could result in higher carbon emissions than if the harvest had occurred on the conservation lands.[1]

Currently, the FPP require no reporting whatsoever any information to describe the potential market leakage of a project. The optional information requested of those who do report leakage includes

We find that addressing the potential leakage of project carbon benefits is absolutely instrumental to building credibility in any registry of emissions reductions, even a voluntary

[1] Murray, B., B. McCarl and H. Lee. "Estimating Leakage From Forest Carbon Sequestration Programs," Research Triangle Institute Working Paper 02-06 (May 2002); Research Triangle Park, North Carolina.

registry. Asking "Yes/No" questions about whether, in the project developer's opinion, a project is likely to result in leakage or not will result in subjective answers that are highly subject to gaming and conflict-of-interest, and that are impossible to verify.

Again, while we acknowledge the inherent challenges with increasing information requirements under a voluntary system, in the case of forest projects it is highly likely that any entity willing to invest in developing a project, implement it, and report its results are only doing so because they intend to seek credit for that project later. Given that the value of a project's carbon benefit in a carbon market will either be reduced or possible negated if not adjusted for leakage, it is entirely in a project developer's best interests to provide objective information about possible market effects at time of project inception.

UCS Recommendation:

Unfortunately, there are no readily available, off-the-shelf models or protocols for estimating carbon leakage from the forest sector (also true for other sectors). However, we recommend that CCAR begin requiring objective product and market information from forest project developers that will serve as the building blocks for a methodology for estimating market-based leakage, and later in time, will allow for developing standard discount factor(s) to generate credible estimates of project leakage for specific regions and markets.

Below, we provide examples of basic information that describe: 1) timber products not produced as a result of the project; and 2) current market conditions for that timber, that should be requested of project developers for each year during the duration of the forest project:

- Volume of timber harvest foregone due to project (m^3, or board ft.)
- Type of timber (green, dry/softwood, hardwood)
- Current market price per ton (stumpage value)
- Likely wood product/end-use for timber:
  - Pulp/paper
  - Sawtimber (specialty)
  - Sawtimber (generic)
- Relative carbon density of stand (tons/ha or tons/acre)
- Harvest method

In the absence of any objective information about the products foregone because of the project's effects on harvest, and basic information about likely markets for those products, any carbon benefit associated with that project and registered in the registry will not have any economic value. It will be much more likely that a project developer would receive a return on a project

Union of Concerned Scientists
Citizens and Scientists for Environmental Solutions

investment if they provide information that can be used to generate even a first-order estimate of market leakage.

In summary, we find that the scientific basis in the FPP is excellent, so we encourage and recommend specific changes that would put the policy basis of the FPP on as strong a footing and that would establish a strong precedent for a system under which carbon stored in California's forests takes on real economic value.

Again, we appreciate the opportunity to comment and look forward to working with you on future versions of the Forest Protocols.

Sincerely,

Michelle Manion
Global Environment Program

Cc: Peter Frumhoff, UCS

www.ucsusa.org | Two Brattle Square · Cambridge, MA 02238-9105 · TEL: 617.547.5552 · FAX: 617.864.9405
1707 H Street, NW · Suite 600 · Washington, DC 20006-3962 · TEL: 202.223.6133 · FAX: 202.223.6162